

Township of Cannon
Kent County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended March 31, 2008

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - vii
INDEPENDENT AUDITORS' REPORT	3 - 4
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	5
Statement of activities	6
Fund financial statements:	
Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8
Statement of net assets - proprietary fund	9
Statement of revenues, expenses, and changes in net assets - proprietary fund	10
Statement of cash flows - proprietary fund	11
Statement of fiduciary net assets - Agency Fund	12
Notes to financial statements	13 - 22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedules:	
General Fund	23 - 24
Fire Fund	25
Recreation Fund	26
SUPPLEMENTARY INFORMATION	
Combining balance sheet - nonmajor governmental funds	27
Combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds	28

MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Cannon
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Cannon, Michigan's operations over the fiscal year and its financial condition on March 31, 2008. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$817,257 (10 percent) as a result of this year's operations.
- Of the \$9,035,611 total net assets reported, \$1,711,025 (19 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$755,088, which represents 45 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's annual financial report is comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - The governmental fund statements tell how general governmental services like public works and public safety were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the Township operates like a business. The Township's proprietary fund accounts for its wastewater system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2008 and 2007 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements of the Township are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services. The Township's wastewater system operations are reported here.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by grant agreements.
- The Township Board establishes other funds to control and manage money for particular purposes (like cemetery operations) or to show that it is properly using certain taxes and other revenues (like the fire and trails millages).

The Township has three kinds of funds:

- *Governmental funds.* Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary balances are reported in separate Statement of Fiduciary Net Assets - Fiduciary Funds. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$9,035,611, an increase of 10% from the prior year. However, \$5,422,993 of this total is invested in capital assets and \$1,901,593 is restricted for various purposes. Consequently, unrestricted net assets were \$1,711,025, 21% of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Other assets	\$ 3,431,480	\$ 3,751,410	\$ 473,061	\$ 457,939	\$ 3,904,541	\$ 4,209,349
Capital assets	<u>3,571,199</u>	<u>2,360,085</u>	<u>6,985,949</u>	<u>3,679,962</u>	<u>10,557,148</u>	<u>6,040,047</u>
Total assets	<u>7,002,679</u>	<u>6,111,495</u>	<u>7,459,010</u>	<u>4,137,901</u>	<u>14,461,689</u>	<u>10,249,396</u>
Other liabilities	134,821	99,386	157,102	111,193	291,923	210,579
Long-term debt	<u>-</u>	<u>-</u>	<u>5,134,155</u>	<u>1,820,463</u>	<u>5,134,155</u>	<u>1,820,463</u>
Total liabilities	<u>134,821</u>	<u>99,386</u>	<u>5,291,257</u>	<u>1,931,656</u>	<u>5,426,078</u>	<u>2,031,042</u>
Net assets:						
Invested in capital assets, net of related debt	3,571,199	2,360,085	1,851,794	1,859,499	5,422,993	4,219,584
Restricted	1,901,593	2,220,310	-	-	1,901,593	2,220,310
Unrestricted	<u>1,395,066</u>	<u>1,431,714</u>	<u>315,959</u>	<u>346,746</u>	<u>1,711,025</u>	<u>1,778,460</u>
Total net assets	<u>\$ 6,867,858</u>	<u>\$ 6,012,109</u>	<u>\$ 2,167,753</u>	<u>\$ 2,206,245</u>	<u>\$ 9,035,611</u>	<u>\$ 8,218,354</u>

Township of Cannon
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The Township's total revenues in 2008 are \$3,708,797. Approximately 33% of the Township's revenues come from property taxes while state shared revenue accounts for 22% of the total revenues. About 28% of total revenues come from charges for services.

Condensed financial information
Changes in net assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program revenues:						
Charges for services	\$ 302,913	\$ 272,465	\$ 618,516	\$ 534,023	\$ 921,429	\$ 806,488
Operating grants	11,870	11,689	-	-	11,670	11,689
Capital grants	559,592	8,397	10,600	-	570,192	8,397
General revenues:						
Property taxes	1,222,835	1,173,557	-	-	1,222,835	1,173,557
State shared revenue	825,633	821,447	-	-	825,633	821,447
Franchise fees	-	18,094	-	-	-	18,094
Interest income	138,061	140,500	18,977	18,625	157,038	159,125
Total revenues	<u>3,060,704</u>	<u>2,446,149</u>	<u>648,093</u>	<u>552,648</u>	<u>3,708,797</u>	<u>2,998,797</u>
Expenses:						
Legislative	25,339	21,786	-	-	25,339	21,786
General government	877,488	848,520	-	-	877,488	848,520
Public safety	878,858	810,178	-	-	878,858	810,178
Public works	219,205	269,915	-	-	219,205	269,915
Community and economic development	175,333	119,102	-	-	175,333	119,102
Recreation and culture	28,732	39,998	-	-	28,732	39,998
Public utilities	-	-	686,585	542,576	686,585	542,576
Total expenses	<u>2,204,955</u>	<u>2,109,499</u>	<u>686,585</u>	<u>542,576</u>	<u>2,891,540</u>	<u>2,652,075</u>
Increase (decrease) in net assets	<u>\$ 855,749</u>	<u>\$ 336,650</u>	<u>\$ (38,492)</u>	<u>\$ 10,072</u>	<u>\$ 817,257</u>	<u>\$ 346,722</u>

Governmental activities

Governmental activities increased the Township's net assets by \$855,749 in the current year compared with an increase of \$336,650 in the prior year. The increase in net assets was higher this year compared to last year because revenues increased by \$614,555 while expenses increased by only \$95,456. Revenues increased so dramatically in the current year primarily due to the receipt of capital grants, approximating \$560,000 that helped to finance the construction of a non-motorized trail system and the purchase of fire equipment. The most significant increase in expenses related to planning and zoning, which increased more than \$56,000 compared to the prior year.

Governmental activities (Continued)

The cost of all governmental activities this year was \$2,204,955 compared to \$2,109,499 in 2007. After subtracting the direct charges to those who directly benefited from the programs (\$302,913), and other operating and capital grants (\$571,262), the "public benefit" portion covered by property taxes, state shared revenue and other general revenues was \$1,330,780 in 2008 compared to \$1,816,948 in 2007.

Business-type activities

The business-type activities decreased the Township' net assets by \$38,492 in 2008 compared to a \$10,072 increase in 2007. Revenues increased by \$117,493 while expenses increased by \$166,057. The key factors which led to this condition include the following:

- Charges for services increased due to the increase in sewer rates.
- The Township experienced increases in debt service requirements associated with contracts payable to the North Kent Sewer authority.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds. At March 31, 2008, the Township's governmental funds reported a combined fund balance of \$3,180,379, a decrease of \$471,645 compared to the prior year.

General Fund expenditures exceeded revenues by \$36,648 in 2008, compared to a \$66,456 excess of revenues over expenditures in 2007. The most significant reason for this year's decrease in fund balance was increased planning and zoning costs approximating \$56,000.

The fund balance of the Fire Fund increased this year by \$200,466 because its revenues, primarily property taxes, continue to be sufficient to cover the cost of public safety services.

The fund balance of the Recreation Fund decreased this year by \$639,697 due to the fact the Township has nearly completed a non-motorized trail construction project. The Township incurred costs in excess of \$1,250,000 related to this project.

The fund balances of the nonmajor governmental funds increased by \$4,234 during the year.

Proprietary fund. The Sewer Fund, the Township's sole proprietary fund, experienced a decrease in net assets of \$38,492 for reasons explained above.

General Fund budgetary highlights

The Township amended the General Fund budgeted expenditures during the year to reflect increased costs experienced during the year. Total budgeted expenditures were increased by \$10,765, which is the amount of the amendment to the information technology activity.

Total revenues were \$100,582 greater than budgeted amounts while expenditures were \$46,467 less than the amounts appropriated. These conditions resulted in a \$147,049 positive budget variance and a \$36,648 decrease in fund balance compared to a budgeted \$183,697 decrease.

General Fund budgetary highlights (Continued)

Several departments experienced expenditures that were lower than anticipated. The most significant variances are explained as follows:

- Professional service costs were \$25,158 less than expected.
- Capital outlay expenditures were \$18,077 lower than planned due to the delay of certain acquisitions.

Capital assets and debt administration

Capital assets

At March 31, 2008, the Township had invested \$10,557,148 (net of accumulated depreciation) in various capital assets, including its land, buildings, equipment, vehicles, and utilities systems. This amount represents a net increase of \$4,517,101, comprised of \$4,777,817 in net additions and \$260,716 in provisions for depreciation.

This year's major capital asset additions included:

- Improvements to the non-motorized trail system at a cost of \$1,256,189. Capital grants financed \$520,000 of these costs.
- The net additions to the sewer system amounted to \$3,305,987. These costs were financed by contracts payable to the North Kent Sewer Authority.

More detailed information about the Township's capital assets is presented in Note 5 of the basic financial statements.

Debt administration

At the end of the fiscal year, the Township had debt outstanding in the amount of \$5,134,155, which represents a net increase of \$3,313,692. All debt is backed by the full faith and credit of the Township.

The Township issued additional debt during the current year in the form of a contract payable to the North Kent Sewer Authority. The North Kent Sewer Authority issued bonds to finance the design of the new wastewater treatment plant and the Township's share of those bonds amounted to \$3,504,606.

All required principal payments, in the amount of \$42,498, were paid in a timely manner.

More detailed information about the Township's noncurrent liabilities is presented in Note 6 of the basic financial statements.

Economic condition and outlook

Cannon Township continues to weather the economic storm that threatens our State in 2008. Our Township Board persists on cautious and conservative financial decisions due to the status of the frail economy. The Township continues to receive less and less from Lansing, yet we have committed to maintain all key essential services, offer a great quality of life, and remain fiscally strong for our constituents.

Economic condition and outlook (Continued)

With the current banking troubles in the country, our Finance Committee continues to protect our reserves by securing investments with minimal risk. In 2008 the top objective of our Township Board is to provide the least amount of risk on our current reserves.

Our Board strives to balance the cost of key services that are crucial for the health, safety, and welfare of our citizens and a mission to maintain a million dollar reserve or "rainy day" fund.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Peter MacGregor, Supervisor
Township of Cannon
6878 Belding Rd NE
Rockford, MI 49341

Phone: (616) 874-6966

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Cannon, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Cannon, Michigan, as of March 31, 2008, and for the year then ended, which collectively comprise the Township of Cannon, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Cannon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Cannon, Michigan, as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Board of Trustees
Township of Cannon, Michigan
Page 2

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Cannon, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Township of Cannon, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

August 6, 2008

BASIC FINANCIAL STATEMENTS

Township of Cannon
STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,737,333	\$ 122,672	\$ 1,860,005
Investments	1,298,942	303,054	1,601,996
Receivables	368,257	47,335	415,592
Prepaid expense	26,948	-	26,948
Total current assets	<u>3,431,480</u>	<u>473,061</u>	<u>3,904,541</u>
Noncurrent assets:			
Capital assets not being depreciated - land	70,913	-	70,913
Capital assets being depreciated, net	<u>3,500,286</u>	<u>6,985,949</u>	<u>10,486,235</u>
Total noncurrent assets	<u>3,571,199</u>	<u>6,985,949</u>	<u>10,557,148</u>
Total assets	<u>7,002,679</u>	<u>7,459,010</u>	<u>14,461,689</u>
LIABILITIES			
Current liabilities:			
Payables	134,821	157,102	291,923
Contracts payable	<u>-</u>	<u>39,689</u>	<u>39,689</u>
Total current liabilities	134,821	196,791	331,612
Noncurrent liabilities - contracts payable	<u>-</u>	<u>5,094,466</u>	<u>5,094,466</u>
Total liabilities	<u>134,821</u>	<u>5,291,257</u>	<u>5,426,078</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,571,199	1,851,794	5,422,993
Restricted for:			
Cemetery	4,484	-	4,484
Public safety	1,617,600	-	1,617,600
Public works	50,657	-	50,657
Recreation and culture	228,852	-	228,852
Unrestricted	<u>1,395,066</u>	<u>315,959</u>	<u>1,711,025</u>
Total net assets	<u>\$ 6,867,858</u>	<u>\$ 2,167,753</u>	<u>\$ 9,035,611</u>

See notes to financial statements

Township of Cannon
STATEMENT OF ACTIVITIES
Year ended March 31, 2008

		<u>Program revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
			<u>contributions</u>	<u>contributions</u>
Functions/Programs				
Governmental activities:				
Legislative	\$ 25,339	\$ -	\$ -	\$ -
General government	877,488	146,146	-	-
Public safety	878,858	97,876	-	39,592
Public works	219,205	57,791	11,670	-
Community and economic development	175,333	1,100	-	-
Culture and recreation	<u>28,732</u>	<u>-</u>	<u>-</u>	<u>520,000</u>
Total governmental activities	2,204,955	302,913	11,670	559,592
Business-type activity - sewer	<u>686,585</u>	<u>618,516</u>	<u>-</u>	<u>10,600</u>
Totals	<u>\$ 2,891,540</u>	<u>\$ 921,429</u>	<u>\$ 11,670</u>	<u>\$ 570,192</u>

General revenues:

Property taxes
State shared revenue
Interest income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (25,339)		\$ (25,339)
(731,342)		(731,342)
(741,390)		(741,390)
(149,744)		(149,744)
(174,233)		(174,233)
<u>491,268</u>		<u>491,268</u>
(1,330,780)		(1,330,780)
<u>-</u>	\$ <u>(57,469)</u>	<u>(57,469)</u>
<u>(1,330,780)</u>	<u>(57,469)</u>	<u>(1,388,249)</u>
1,222,835	-	1,222,835
825,633	-	825,633
<u>138,061</u>	<u>18,977</u>	<u>157,038</u>
<u>2,186,529</u>	<u>18,977</u>	<u>2,205,506</u>
855,749	(38,492)	817,257
<u>6,012,109</u>	<u>2,206,245</u>	<u>8,218,354</u>
<u>\$ 6,867,858</u>	<u>\$ 2,167,753</u>	<u>\$ 9,035,611</u>

See notes to the financial statements

Township of Cannon
BALANCE SHEET - governmental funds
 March 31, 2008

	<i>Major funds</i>		
	<i>General</i>	<i>Fire</i>	<i>Recreation</i>
ASSETS			
Cash	\$ 644,259	\$ 1,088,590	\$ -
Investments	558,855	518,458	172,832
Receivables	222,347	19,840	124,210
Prepaid expenditures	25,415	1,533	-
Total assets	<u>\$ 1,450,876</u>	<u>\$ 1,628,421</u>	<u>\$ 297,042</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 55,810	\$ 10,821	\$ 68,190
Deferred revenue	-	-	116,280
Total liabilities	<u>55,810</u>	<u>10,821</u>	<u>184,470</u>
Fund balances - unreserved:			
Designated	639,978	376,909	-
Undesignated	755,088	1,240,691	112,572
Undesignated reported in nonmajor - special revenue funds	-	-	-
Total fund balances	<u>1,395,066</u>	<u>1,617,600</u>	<u>112,572</u>
Total liabilities and fund balances	<u>\$ 1,450,876</u>	<u>\$ 1,628,421</u>	<u>\$ 297,042</u>

Total fund balances - all governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Other assets not available to pay for current period expenditures and, therefore, are deferred in the funds.

Net assets of *governmental activities*

<i>Nonmajor funds</i>	<i>Total governmental funds</i>
\$ 4,484	\$ 1,737,333
48,797	1,298,942
1,860	368,257
-	26,948
<u>\$ 55,141</u>	<u>\$ 3,431,480</u>
\$ -	\$ 134,821
-	116,280
<u>-</u>	<u>251,101</u>
-	1,016,887
-	2,108,351
<u>55,141</u>	<u>55,141</u>
<u>55,141</u>	<u>3,180,379</u>
<u>\$ 55,141</u>	<u>\$ 3,431,480</u>
	\$ 3,180,379
	3,571,199
	<u>116,280</u>
	<u>\$ 6,867,858</u>

See notes to financial statements

Township of Cannon

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2008

	Major funds			Nonmajor funds
	General	Fire	Recreation	
REVENUES				
Property taxes	\$ 583,901	\$ 518,870	\$ 206,781	\$ -
Licenses and permits	96,672	-	-	-
Federal grants	-	39,592	-	-
State grants	837,303	-	383,720	-
Charges for services	29,610	-	-	-
Interest and rentals	82,896	65,755	19,111	1,623
Other	2,300	12	20,000	54,791
Total revenues	1,632,682	624,229	629,612	56,414
EXPENDITURES				
Legislative	25,339	-	-	-
General government	800,844	-	-	-
Public safety	408,684	368,475	-	-
Public works	229,340	-	-	52,180
Community and economic development	175,333	-	-	-
Recreation and culture	10,017	-	110,394	-
Capital outlay	19,773	55,288	1,158,915	-
Total expenditures	1,669,330	423,763	1,269,309	52,180
NET CHANGES IN FUND BALANCES	(36,648)	200,466	(639,697)	4,234
FUND BALANCES - BEGINNING	1,431,714	1,417,134	752,269	50,907
FUND BALANCES - ENDING	\$ 1,395,066	\$ 1,617,600	\$ 112,572	\$ 55,141

Net change in fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Assets acquired

Provision for depreciation

Changes in other assets/liabilities:

Net increase in deferred revenue

Change in net assets of *governmental activities*

***Total
governmental
funds***

\$ 1,309,552
96,672
39,592
1,221,023
29,610
169,385
77,103

2,942,937

25,339
800,844
777,159
281,520
175,333
120,411
1,233,976

3,414,582

(471,645)

3,652,024

\$ 3,180,379

\$ (471,645)

1,380,230
(169,116)

116,280

\$ 855,749

See notes to financial statements

Township of Cannon
STATEMENT OF NET ASSETS - *proprietary fund*
March 31, 2008

	<u>Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 122,672
Investments	303,054
Receivables	<u>47,335</u>
Total current assets	473,061
Noncurrent assets:	
Capital assets being depreciated, net	<u>6,985,949</u>
Total assets	<u>7,459,010</u>
LIABILITIES	
Current liabilities:	
Payables	157,102
Contracts payable	<u>39,689</u>
Total current liabilities	196,791
Noncurrent liabilities - contracts payable	<u>5,094,466</u>
Total liabilities	<u>5,291,257</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,851,794
Unrestricted	<u>315,959</u>
Total net assets	<u>\$ 2,167,753</u>

See notes to financial statements

Township of Cannon

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary fund***

Year ended March 31, 2008

	<u>Sewer</u>
OPERATING REVENUES	
Charges for services	<u>\$ 618,516</u>
OPERATING EXPENSES	
Operation and maintenance	349,959
Depreciation	<u>50,203</u>
Total operating expenses	<u>400,162</u>
OPERATING INCOME	<u>218,354</u>
NONOPERATING REVENUE (EXPENSE)	
Interest revenue	18,977
Connection fees	10,600
Interest expense	<u>(286,423)</u>
Total nonoperating expense	<u>(256,846)</u>
CHANGE IN NET ASSETS	(38,492)
NET ASSETS - BEGINNING	<u>2,206,245</u>
NET ASSETS - ENDING	<u><u>\$ 2,167,753</u></u>

See notes to financial statements

Township of Cannon
STATEMENT OF CASH FLOWS - proprietary fund
Year ended March 31, 2008

	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 595,004
Payments to suppliers	(360,496)
Payments to employees	<u>(7,453)</u>
Net cash provided by operating activities	<u>227,055</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Connection fees	10,600
Principal payments on capital debt	(42,498)
Interest payments on capital debt	<u>(222,524)</u>
Net cash used in capital and related financing activities	<u>(254,422)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in investments	(14,680)
Interest received	<u>18,977</u>
Net cash provided by investing activities	<u>4,297</u>
NET DECREASE IN CASH	(23,070)
CASH - BEGINNING	<u>145,742</u>
CASH - ENDING	<u><u>\$ 122,672</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 218,354
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	50,203
Change in assets and liabilities:	
Receivables	(23,512)
Payables	<u>(17,990)</u>
Net cash provided by operating activities	<u><u>\$ 227,055</u></u>
Noncash capital and related financing activities:	
Capital assets, in the amount of \$3,397,588, were acquired through the issuance of a contract payable.	

See notes to financial statements

Township of Cannon
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
March 31, 2008

ASSETS

Cash	\$ 5,006
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LIABILITIES

Payables	\$ 5,006
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See notes to the financial statements

Township of Cannon
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Cannon, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Fund accounts for the use of property tax revenues that are restricted for the financing of the costs of fire protection within the Township.

The Recreation Fund accounts for the use of property tax revenues that are restricted for the financing of recreation costs within the Township.

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Township's sewage collection system.

The Township reports two fiduciary funds, its Escrow Fund and its Payroll Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer systems, roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the Township as assets with an initial, individual cost of more than \$1,000 (\$10,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Township has elected to account for its infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25 - 50 years
Equipment	3 - 20 years
Vehicles	20 years
Shared road costs	10 - 15 years
Sewer systems	50 - 67 years

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

v) Property tax revenue recognition - Property taxes are levied as of March 1 on property values assessed as of March 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Township's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year. The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	\$ 382,142	\$ 408,684	\$ (26,542)
Recreation	Recreation and culture	90,000	110,394	(20,394)
	Capital outlay	730,000	1,158,915	(428,915)

NOTE 3 - CASH AND INVESTMENTS:

Cash, as presented in the accompanying financial statements, consists of the following:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total</u>
Deposits	\$ 1,737,133	\$ 122,672	\$ 5,006	\$ 1,864,811
Investments	1,298,942	303,054	-	1,601,996
Cash on hand	200	-	-	200
Totals	<u>\$ 3,036,275</u>	<u>\$ 425,726</u>	<u>\$ 5,006</u>	<u>\$ 3,467,007</u>

Deposits:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At March 31, 2008, \$1,577,872 of the Township's bank balances of \$1,877,872 was exposed to custodial credit risk because it was uninsured. The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

NOTE 4 - RECEIVABLES:

At March 31, 2008, the receivables of the Township's funds were as follows:

	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter- governmental</i>	<i>Special assessments</i>	<i>Totals</i>
Governmental activities:					
General Fund	\$ 20,263	\$ 72,349	\$ 129,735	\$ -	\$ 222,347
Fire Fund	19,840	-	-	-	19,840
Recreation Fund	7,930	-	116,280	-	124,210
Nonmajor funds	-	-	-	1,860	1,860
Total	<u>\$ 48,033</u>	<u>\$ 72,349</u>	<u>\$ 246,015</u>	<u>\$ 1,860</u>	<u>\$ 368,257</u>
Business-type activities -					
Sewer Fund	<u>\$ -</u>	<u>\$ 47,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,335</u>

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2008, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 70,913	\$ -	\$ -	\$ 70,913
Capital assets being depreciated				
Buildings and land improvements	1,754,987	1,260,253	-	3,015,240
Equipment	633,530	33,503	-	667,033
Shared road costs	247,127	82,937	-	330,064
Vehicles	1,209,378	3,537	-	1,212,915
Subtotal	<u>3,845,022</u>	<u>1,380,230</u>	<u>-</u>	<u>5,225,252</u>
Less accumulated depreciation for:				
Buildings and land improvements	(488,186)	(39,094)	-	(527,280)
Equipment	(291,089)	(51,174)	-	(342,263)
Shared road costs	(24,974)	(20,622)	-	(45,596)
Vehicles	(751,601)	(58,226)	-	(809,827)
Subtotal	<u>(1,555,850)</u>	<u>(169,116)</u>	<u>-</u>	<u>(1,724,966)</u>
Total capital assets being depreciated, net	<u>2,289,172</u>	<u>1,211,114</u>	<u>-</u>	<u>3,500,286</u>
Governmental activities capital assets, net	<u>\$ 2,360,085</u>	<u>\$ 1,211,114</u>	<u>\$ -</u>	<u>\$ 3,571,199</u>
Business-type activities:				
Capital assets being depreciated - sewer system	\$ 5,386,583	\$ 3,397,587	\$ -	\$ 8,784,170
Less accumulated depreciation	<u>(1,706,621)</u>	<u>(91,600)</u>	<u>-</u>	<u>(1,798,221)</u>
Total capital assets being depreciated, net	<u>\$ 3,679,962</u>	<u>\$ 3,305,987</u>	<u>\$ -</u>	<u>\$ 6,985,949</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 59,448
Public safety	83,451
Public works	20,622
Recreation and culture	<u>5,595</u>
Total governmental activities	<u>\$ 169,116</u>

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES:

Noncurrent liabilities at March 31, 2008, consist of the following issues:

Business-type activities:

1998 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$3,557 to \$7,017; plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due May 2018.	\$ 57,772
2000 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$11,948 to \$13,275; plus interest payable semi-annually at rates between 5.00% and 5.50%; final payment due May 2010.	37,613
2001 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$15,488 to \$35,400; plus interest payable semi-annually at rates between 2.80% and 4.875%; final payment due November 2026.	449,585
2002 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$6,195 to \$7,523; plus interest payable semi-annually at rates between 2.7% and 5.05%; final payment due November 2012.	28,321
2005 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$15,930 to \$35,843; plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2030.	531,005
2006 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$17,784 to \$40,014; plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2030.	3,504,606
2007 North Kent County Sewer Authority debt service contract; payable in annual installments ranging between \$17,784 to \$40,014; plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2030.	<u>525,253</u>
Total business-type activities	<u>\$ 5,134,155</u>

Noncurrent liability activity for the year ended March 31, 2008, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
<i>Business-type activities:</i>					
1998 debt service contract	\$ 65,085	\$ -	\$ (3,557)	\$ 61,528	\$ 3,845
2000 debt service contract	402,116	-	(364,503)	37,613	11,948
2001 debt service contract	518,206	-	(68,621)	449,585	15,488
2002 debt service contract	246,012	-	(217,691)	28,321	6,195
2005 debt service contract	589,044	-	(61,795)	527,249	-
2006 debt service contract	-	3,504,606	-	3,504,606	-
2007 debt service contract	<u>-</u>	<u>532,333</u>	<u>(7,080)</u>	<u>525,253</u>	<u>2,213</u>
Totals	<u>\$ 1,820,463</u>	<u>\$ 4,036,939</u>	<u>\$ (723,247)</u>	<u>\$ 5,134,155</u>	<u>\$ 39,689</u>

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

At March 31, 2008, debt service requirements were as follows:

<i>Year ended</i> <i>March 31:</i>	<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>
2009	\$ 39,689	\$ 83,265
2010	123,956	81,481
2011	130,883	79,574
2012	133,729	76,938
2013	139,769	74,134
2014 - 2018	779,707	325,062
2019 - 2023	1,065,925	232,060
2024 - 2028	1,372,640	112,953
2029 - 2031	1,347,857	18,278
Totals	<u>\$ 5,134,155</u>	<u>\$ 1,083,745</u>

All debt is secured by the full faith and credit of the Township

NOTE 7 - PAYABLES:

At March 31, 2008, the payables of the Township's funds were as follows:

	<i>Accounts</i>	<i>Payroll</i>	<i>Interest</i>	<i>Totals</i>
Governmental funds:				
General Fund	\$ 46,270	\$ 9,540	\$ -	\$ 55,810
Fire Fund	5,721	5,100	-	10,821
Recreation Fund	68,190	-	-	68,190
Total governmental funds	<u>\$ 120,181</u>	<u>\$ 14,640</u>	<u>\$ -</u>	<u>\$ 134,821</u>
Proprietary fund - Sewer Fund	<u>\$ 58,997</u>	<u>\$ -</u>	<u>\$ 98,105</u>	<u>\$ 157,102</u>

NOTE 8 - DEFERRED REVENUE:

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The Recreation Fund reported deferred revenue related to a state grant for trail construction, in the amount of \$116,280, that was earned but unavailable at the end of the current fiscal year.

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan statutes assign the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate after six months of employment. The Township contributes 12% of each qualified employee's base salary to the plan and the contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

The Township and its employees made required contributions of \$64,728 and \$6,707, respectively.

NOTE 10 - JOINT VENTURE:

North Kent Sewer Authority:

The Township is a participant in the North Kent Sewer Authority (the Authority). The Administrative Board of the Authority consists of members appointed by each participating unit. The Authority was formed for the purpose of acquiring and operating a sanitary sewer system.

The Township utilizes the Authority to transport its sewage to the City of Grand Rapids Sanitary Sewer System for treatment and disposal. The Township has no equity interest in the Authority; therefore, financial information of the Authority has not been included in the Township's financial statements. Costs of operations and capital asset acquisitions of the Authority are supported by contributions from the participating municipalities based on their share of sewage flow through the system. The Township has pledged its limited tax full faith and credit for its share of bonds issued by the Authority. During the year ended March 31, 2008, the Township paid the Authority \$311,701.

Complete financial statements for the Authority can be obtained from the Authority's Administrative Office at P.O. Box 561, Rockford, Michigan 49341-0561.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The Township is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. Claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2008, follows:

Revenues	\$ 97,876
Expenses	<u>116,087</u>
Deficiency of revenues over expenses	<u>\$ (18,211)</u>

Township of Cannon
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 - CONSTRUCTION COMMITMENT:

At March 31, 2008, the Township had the following contractual construction commitment:

	<i><u>Project authorization</u></i>	<i><u>Expended through March 31, 2008</u></i>	<i><u>Committed</u></i>
Non-motorized trail system	\$ <u>1,182,095</u>	\$ <u>1,158,688</u>	\$ <u>23,407</u>

This project is to be funded by available resources of the Recreation Fund.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Cannon
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 531,450	\$ 531,450	\$ 583,901	\$ 52,451
Licenses and permits	89,150	89,150	96,672	7,522
State grants	830,000	830,000	837,303	7,303
Charges for services	34,300	34,300	29,610	(4,690)
Interest and rentals	46,400	46,400	82,896	36,496
Other	800	800	2,300	1,500
Total revenues	<u>1,532,100</u>	<u>1,532,100</u>	<u>1,632,682</u>	<u>100,582</u>
EXPENDITURES				
Legislative	<u>24,833</u>	<u>24,833</u>	<u>25,339</u>	<u>(506)</u>
General government:				
Supervisor	68,839	68,839	66,626	2,213
Elections	4,385	4,385	7,747	(3,362)
Assessor	86,510	86,510	88,906	(2,396)
Clerk	154,349	154,349	151,477	2,872
Treasurer	154,991	154,991	151,760	3,231
Board of Review	1,865	1,865	1,509	356
Information technology	75,357	86,122	101,275	(15,153)
Administrative support	75,433	75,433	71,125	4,308
Professional services	72,900	72,900	47,742	25,158
Fringe benefits	15,300	15,300	17,099	(1,799)
Hall and grounds	59,700	59,700	69,359	(9,659)
Cemetery	12,600	12,600	10,573	2,027
Other	<u>16,750</u>	<u>16,750</u>	<u>15,646</u>	<u>1,104</u>
Total general government	<u>798,979</u>	<u>809,744</u>	<u>800,844</u>	<u>8,900</u>
Public safety:				
Law enforcement	285,000	285,000	292,597	(7,597)
Building inspection	<u>97,142</u>	<u>97,142</u>	<u>116,087</u>	<u>(18,945)</u>
Total public safety	<u>382,142</u>	<u>382,142</u>	<u>408,684</u>	<u>(26,542)</u>

Township of Cannon

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Public works:				
Road construction and maintenance	\$ 220,200	\$ 220,200	\$ 211,410	\$ 8,790
Public transportation	2,000	2,000	1,932	68
Watershed	<u>26,475</u>	<u>26,475</u>	<u>15,998</u>	<u>10,477</u>
Total public works	<u>248,675</u>	<u>248,675</u>	<u>229,340</u>	<u>19,335</u>
Community and economic development - planning and zoning	<u>190,253</u>	<u>190,253</u>	<u>175,333</u>	<u>14,920</u>
Recreation and culture:				
Parks and recreation	2,500	2,500	2,601	(101)
Historical society	<u>19,800</u>	<u>19,800</u>	<u>7,416</u>	<u>12,384</u>
Total recreation and culture	<u>22,300</u>	<u>22,300</u>	<u>10,017</u>	<u>12,283</u>
Capital outlay	<u>37,850</u>	<u>37,850</u>	<u>19,773</u>	<u>18,077</u>
Total expenditures	<u>1,705,032</u>	<u>1,715,797</u>	<u>1,669,330</u>	<u>46,467</u>
NET CHANGES IN FUND BALANCES	(172,932)	(183,697)	(36,648)	147,049
FUND BALANCES - BEGINNING	<u>1,431,714</u>	<u>1,431,714</u>	<u>1,431,714</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$1,258,782</u>	<u>\$1,248,017</u>	<u>\$1,395,066</u>	<u>\$ 147,049</u>

Township of Cannon
BUDGETARY COMPARISON SCHEDULE - Fire Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 490,400	\$ 490,400	\$ 518,870	\$ 28,470
Federal grant	-	-	39,592	39,592
Interest	60,000	60,000	65,755	5,755
Other	-	-	12	12
Total revenues	<u>550,400</u>	<u>550,400</u>	<u>624,229</u>	<u>73,829</u>
EXPENDITURES				
Public safety	387,700	387,700	368,475	19,225
Capital outlay	<u>336,000</u>	<u>336,000</u>	<u>55,288</u>	<u>280,712</u>
Total expenditures	<u>723,700</u>	<u>723,700</u>	<u>423,763</u>	<u>299,937</u>
NET CHANGES IN FUND BALANCES	(173,300)	(173,300)	200,466	373,766
FUND BALANCES - BEGINNING	<u>1,417,134</u>	<u>1,417,134</u>	<u>1,417,134</u>	-
FUND BALANCES - ENDING	<u>\$1,243,834</u>	<u>\$1,243,834</u>	<u>\$1,617,600</u>	<u>\$ 373,766</u>

Township of Cannon
BUDGETARY COMPARISON SCHEDULE - Recreation Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 199,100	\$ 199,100	\$ 206,781	\$ 7,681
State grants	-	-	383,720	383,720
Interest	20,000	20,000	19,111	(889)
Other	-	-	20,000	20,000
	<u>219,100</u>	<u>219,100</u>	<u>629,612</u>	<u>410,512</u>
EXPENDITURES				
Recreation and culture	82,000	90,000	110,394	(20,394)
Capital outlay	<u>500,000</u>	<u>730,000</u>	<u>1,158,915</u>	<u>(428,915)</u>
	<u>582,000</u>	<u>820,000</u>	<u>1,269,309</u>	<u>(449,309)</u>
NET CHANGES IN FUND BALANCES	(362,900)	(600,900)	(639,697)	(38,797)
FUND BALANCES - BEGINNING	<u>752,269</u>	<u>752,269</u>	<u>752,269</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 389,369</u>	<u>\$ 151,369</u>	<u>\$ 112,572</u>	<u>\$ (38,797)</u>

SUPPLEMENTARY INFORMATION

Township of Cannon
COMBINING BALANCE SHEET - nonmajor governmental funds
 March 31, 2008

	<u>Special revenue funds</u>			<u>Totals</u>
	<u>Cemetery</u>	<u>Street Lighting</u>	<u>Weed control</u>	
ASSETS				
Cash	\$ 4,484	\$ -	\$ -	\$ 4,484
Investments	-	25,953	22,844	48,797
Receivables	-	779	1,081	1,860
Total assets	<u>\$ 4,484</u>	<u>\$ 26,732</u>	<u>\$ 23,925</u>	<u>\$ 55,141</u>
FUND BALANCES				
Fund balances - unreserved, undesignated	<u>\$ 4,484</u>	<u>\$ 26,732</u>	<u>\$ 23,925</u>	<u>\$ 55,141</u>

Township of Cannon**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended March 31, 2008

	<u>Special revenue funds</u>			<u>Totals</u>
	<u>Cemetery</u>	<u>Street Lighting</u>	<u>Weed control</u>	
REVENUES				
Interest	\$ 217	\$ 924	\$ 482	\$ 1,623
Other - special assessments	<u>-</u>	<u>32,666</u>	<u>22,125</u>	<u>54,791</u>
Total revenues	217	33,590	22,607	56,414
EXPENDITURES				
Public works	<u>-</u>	<u>32,016</u>	<u>20,164</u>	<u>52,180</u>
NET CHANGES IN FUND BALANCES	217	1,574	2,443	4,234
FUND BALANCES - BEGINNING	<u>4,267</u>	<u>25,158</u>	<u>21,482</u>	<u>50,907</u>
FUND BALANCES - ENDING	<u>\$ 4,484</u>	<u>\$ 26,732</u>	<u>\$ 23,925</u>	<u>\$ 55,141</u>

August 6, 2008

To the Board of Trustees
Township of Cannon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Cannon for the year ended March 31, 2008, and have issued our report thereon dated August 6, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 11, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Cannon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Township of Cannon during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



1958-2008

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended March 31, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Cannon's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Township of Cannon as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Cannon's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Township has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Township has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Cannon and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall A.C.

August 6, 2008

**Members of the Board
Township of Cannon**

In planning and performing our audit of the financial statements of the Township of Cannon for the year ended March 31, 2008, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 6, 2008, on the financial statements of the Township of Cannon.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Township management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Siegfried Crandall P.C.



1958-2008

COMMENTS AND RECOMMENDATIONS

Tax Fund monitoring

The Township's Tax Fund, an agency fund, collects and distributes a substantial amount of money over the course of the year. State statutes require the Township to maintain a separate bank account for these transactions and to remit taxes collected on behalf of other units within certain time periods. Statutorily, the Treasurer is the only official that must be an authorized signer for the separate bank account. The Township must also maintain a general ledger for the Tax Fund.

Our consideration of the internal controls related to the Tax Fund revealed opportunities to strengthen the system of controls. We recommend that both the Treasurer and the Clerk review and approve all Tax Fund disbursements, both checks and electronic transfers, for adequate support before disbursements are issued. Both the Treasurer and the Clerk should be authorized signers on the separate bank account for the Tax Fund. In addition, the Treasurer's Department could prepare a report for the Finance Committee's review that identifies all taxes collected and paid, by taxing authority, prior to the annual settlement with the County.

These additional procedures should strengthen the controls over the tax collection transaction cycle and allow for monitoring of the Tax Fund by officials outside the Treasurer's Department.

Sewer Fund receivable reconciliation

The receivable balance for sewer charges from the utility billing software (the subsidiary ledger) was not reconciled to the related receivable control account balance in the Sewer Fund in a timely manner. While the unreconciled difference was insignificant, the Township should implement policies and procedures to ensure that this important task is performed.

We recommend the reconciliation of the receivable balance, per the utility billing software, to the general ledger control account on a monthly basis. We suggest that you contact your software provider to determine the appropriate receivable report to use for this purpose. This procedure must be performed to ensure that all sewer billing and collection transactions are being recorded properly.

Sewer charge billing adjustments

Our consideration of the internal controls related to sewer billings revealed an opportunity to strengthen the system of controls through the segregation of duties. Sewer billing adjustments are currently approved and recorded by the same person. The potential for errors and fraud increases with inadequate segregation of duties related to the sewer billing transaction cycle.

We recommend the review and approval of all sewer billing adjustments by a Township employee who has an understanding of the utility billing system but no ability to record transactions. The billing clerk could prepare reports, on a monthly basis, to support billing adjustments that would be reviewed and approved before being recorded. We suggest that you contact your software provider to determine the best reports to use for this purpose.

Written policies and procedures

Many of the Township's policies and procedures related to the accounting function have not been formally documented.

We recommend that the Township develop a written accounting policies and procedures manual. Committing the Township's policies and procedures to writing would provide several benefits, including:

- clarification of responsibilities and segregation of duties
- communication of appropriate systems of internal controls
- improve continuity at the time of personnel changes